Ratings On Eight Commercial Finance Companies Affirmed Under Revised Criteria

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- We have reviewed our ratings on eight commercial finance companies in the U.S. under our revised criteria.
- We have affirmed the ratings on these companies, and the outlooks are unchanged.

NEW YORK (S&P Global Ratings) Dec. 13, 2021--S&P Global Ratings today said it affirmed its ratings on the eight commercial finance companies listed below. The affirmations follow a revision to our methodologies for rating banks and nonbank financial institutions (NBFIs) and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology" and "Banking Industry Country Risk Assessment Methodology And Assumptions," published Dec. 9, 2021). We affirmed our issuer credit ratings and issue ratings on:

- Burford Capital Ltd.
- Hannon Armstrong Sustainable Infrastructure Capital Inc.
- Jefferies Finance LLC
- KKR Financial Holdings LLC
- Massachusetts Development Finance Agency
- MidCap Financial Issuer Trust
- National Rural Utilities Cooperative Finance Corp.
- Oxford Finance LLC

Our rating outlooks on these eight companies remain stable.

Our economic risk and industry risk scores in the U.S. both remain '3'. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in the U.S. The trends we see for economic risk and industry risk remain stable and positive, respectively.

The anchor for our ratings on NBFI finance companies (fincos) in the U.S. remains 'bb+'. The anchor is three notches below the 'bbb+' U.S. bank anchor to reflect a lack of central bank access, lower regulatory oversight, and higher competitive risk relative to banks. U.S. fincos typically rely on bank facilities, secured and unsecured debt, and other wholesale funding, whereas U.S. banks mainly rely on deposit funding. While consumer fincos typically are subject to consumer protection laws, U.S. fincos generally are not subject to the same significant prudential regulatory oversight as banks' capital and liquidity, which we view as generally supportive of creditworthiness. While U.S. fincos may compete with banks, they often focus on higher-risk lending than banks and are subject to greater cyclical volatility. As with banks, the U.S. fincos' anchor reflects the country's diversified and high-income economy.

Burford Capital Ltd.

The ratings on Burford Capital Ltd. reflect its leading market position in litigation finance, low leverage, and strong track record of investment returns since inception in 2009. Conversely, rating weaknesses include the binary investment outcomes in litigation finance investing with little principal protection, and the potential liquidity risks associated with a large amount of unfunded commitments combined with a highly illiquid investment portfolio that yields unpredictable litigation finance investment realizations.

Outlook

The stable outlook reflects our expectation that as Burford continues to grow both its balance sheet and asset management segment, successful investments will continue to provide more than sufficient returns to offset the relatively high number of failed investments due to their asymmetric return profile. The stable outlook also considers Burford's low leverage as measured by debt to adjusted total equity (ATE) of 0.72x as of June 30, 2021, and our expectation that it would remain below 1.0x over the next 12 months.

Downside scenario. We could lower our ratings on Burford if, in our view, its investment performance weakens considerably, which could be indicated by a decline in investment realizations over a six- to 12-month period or by a rise in the ratio of cases that are concluded with a return less than invested principal. We could also lower the ratings if leverage increases above 1.0x on a sustained basis or if liquidity becomes strained due to higher draws on commitments or reduced realizations.

Upside scenario. Over the longer term, we could upgrade the company if its portfolio reaches a maturity and diversification that would reduce potential lumpiness of revenues and provide a more stable and predictable flow of earnings while maintaining leverage sustainably below 1.0x.

Ratings score snapshot

Issuer credit rating: BB-/Stable/--

- Stand-alone credit profile: bb-
- Preliminary anchor: bb+
- Anchor adjustment: 0
- Business position: Moderate (-1)
- Capital and earnings: Very Strong (+2)
- Risk position: Constrained (-2)
- Funding and liquidity: Adequate and moderate (-1)
- Comparable rating analysis: 0

Support: 0

- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

Hannon Armstrong Sustainable Infrastructure Capital Inc.

The ratings on Hannon Armstrong Sustainable Capital Inc. (HASI) reflect its relatively low leverage, conservative underwriting standards, and experienced management team. The company typically operates with leverage below its target of up to 2.5x debt to equity and has had a strong underwriting track record on a diverse portfolio of infrastructure investments. Partially offsetting these strengths are the company's niche position relative to larger competitors, such as banks and insurers, and some large single investment exposures.

Outlook

The stable outlook reflects our expectation that over the next 12 months, HASI will maintain its conservative underwriting standards with minimal credit losses or impairments. We expect that HASI will operate with leverage of 2.0x–2.75x as measured by debt to ATE.

Downside scenario. We could lower the ratings in the next 12 months if:

- Debt to ATE rises above 2.75x;
- The investment portfolio quality deteriorates, as indicated by rising credit losses, impairments, or nonaccruals; or
- Access to funding or liquidity deteriorates.

Upside scenario. We could consider raising the ratings if HASI continues to build its business position and reduces large single investment portfolio concentrations relative to ATE. Although we don't expect this, we could also raise the ratings if HASI were to operate with debt to ATE below 1.5x on a sustained basis.

Ratings score snapshot

Issuer credit rating: BB+/Stable/--

Stand-alone credit profile: bb+

- Preliminary anchor: bb+
- Anchor adjustment: 0
- Business position: Moderate (-1)
- Capital and earnings: Strong (+1)
- Risk position: Adequate (0)
- Funding and liquidity: Adequate and adequate (0)

- Comparable rating analysis: 0

Support: 0

- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

Jefferies Finance LLC

Our ratings on Jefferies Finance LLC (JFIN) reflect its concentration in leveraged lending, as well as the market and credit risks of its originate-to-syndicate underwriting and lending strategies. While JFIN has historically been successful in managing its underwriting commitments, we believe liquidity could be strained in stress scenarios where syndication becomes more difficult and draws on unfunded revolvers increase. Our issuer credit rating on JFIN is one notch higher than the stand-alone credit profile because we believe Jefferies Group would support JFIN under some circumstances of stress.

Outlook

We expect JFIN will maintain leverage under 4.5x debt to ATE over the next 12 months and successfully manage its underwriting and undrawn commitments. We also expect that parents MassMutual Life Insurance Co. and Jefferies Group will continue to support JFIN and that the company will remain at least moderately strategically important to parent Jefferies.

Downside scenario. We could lower the ratings in the next 12 months if:

- Liquidity becomes strained, perhaps due to underwriting commitments or draws on unfunded revolvers;
- Debt to ATE rises above 4.5x; or
- Jefferies reduces its commitment to JFIN.

Upside scenario. We could raise our ratings if JFIN significantly increases available liquidity relative to its underwriting and undrawn commitments, or if it reduces and sustains leverage below 2.75x debt to ATE.

Ratings score snapshot

Issuer credit rating: BB-/Stable/--

Stand-alone credit profile: b+

- Preliminary anchor: bb+
- Anchor adjustment: 0
- Business position: Moderate (-1)
- Capital and earnings: Adequate (0)

- Risk position: Moderate (-1)
- Funding and liquidity: Adequate and moderate (-1)
- Comparable rating analysis: 0

Support: +1

- GRE support: 0
- Group support: +1
- Sovereign support: 0

Additional factors: 0

KKR Financial Holdings LLC

The ratings on KKR Financial Holdings LLC (KFN) reflect very low leverage at less than 1.0x, diversified stable funding, and the strength of the entity's relationship with its parent and owner, KKR & Co. Inc. The company's relatively risky underlying holdings and concentrated investment portfolio, on the other hand, limit the ratings. We also assess KFN as a strategically important subsidiary of the KKR group, and our 'BBB' issuer credit rating on KFN benefits from four notches of uplift from the 'bb-' stand-alone credit profile.

Outlook

The stable outlook reflects our expectation that KFN will maintain leverage, as measured by debt to ATE, below 1.0x over the next 12-24 months. Further, in our base case, we expect that KFN's portfolio performance will remain stable and that the company will maintain adequate covenant cushions.

Downside scenario. We could lower the ratings if KFN's leverage (debt to ATE) approaches 1.5x or if its net worth (equity) declines such that there is only modest cushion to its minimum net worth covenant.

Upside scenario. We do not view an upgrade as likely at this time. An upgrade would likely come only from strong demonstrated support from the parent, KKR, or stronger public statements of support for KFN from KKR.

Ratings score snapshot

Issuer credit rating: BBB/Stable/--

Stand-alone credit profile: bb-

- Preliminary anchor: bb+
- Anchor adjustment: 0
- Business position: Moderate (-1)
- Capital and earnings: Very Strong (+2)
- Risk position: Constrained (-3)

- Funding and liquidity: Adequate and adequate (0)
- Comparable rating analysis: (0)

Support: +4

- GRE support: 0
- Group support: +4
- Sovereign support: 0

Additional factors: 0

Massachusetts Development Finance Agency

The ratings on Massachusetts Development Finance Agency (MassDevelopment) reflect its diversified business lines, strong capital, and robust liquidity. Offsetting factors include MassDevelopment's volatile earnings, reliance on capital contributions from the state, and high geographic concentration, which exposes the agency to cyclical downturns in the Massachusetts real estate market.

The ratings on MassDevelopment are based on our stand-alone assessment of the agency, plus the high likelihood that it would receive extraordinary support from the state in the event of financial distress.

Outlook

The stable outlook incorporates our opinion that over the next 12-24 months, the state of Massachusetts will continue to offer support or, in the event of financial distress, extraordinary support to the agency. We expect this support in all economic cycles, given MassDevelopment's close business and financial ties with the state.

Downside scenario. We could lower the ratings on MassDevelopment if, in our view, the state changes its financial commitment to the agency, or if operating losses significantly deplete the agency's capital.

Upside scenario. We are unlikely to raise our ratings on MassDevelopment in the next 12-24 months.

Ratings score snapshot

Issuer credit rating: A+/Stable/--

Stand-alone credit profile: a

- Preliminary anchor: bb+
- Entity-specific adjustment: +1
- Business position: Strong (+1)
- Capital and earnings: Very Strong (+2)
- Risk position: Adequate (0)

- Funding and liquidity: Strong and Strong (+1)
- Comparable rating analysis: 0

Support: +1

- GRE support: +1
- Group support: 0
- Sovereign support: 0

Additional factors: 0

MidCap Financial Issuer Trust

Our ratings on MidCap Financial Issuer Trust (MidCap FIT) and MidCap Financial Holdings Trust (collectively, MidCap) balance the risks associated with middle-market leveraged lending and an encumbered balance sheet with the group's highly experienced management team, strong underwriting record, and broad and diverse sources of funding.

Outlook

The stable outlook reflects our expectation that MidCap, over the next 12 months, will operate with debt to ATE at 3.6x-4.1x. We expect the company will maintain its strong underwriting record, including in lending segments outside of health care. Further, we expect MidCap will maintain access to funding through a broad array of lenders and credit facilities, as well as maintain adequate liquidity.

Downside scenario. We could lower our ratings if MidCap's debt to ATE rises above 4.5x over the next 12 months or if loan losses increase, particularly on its larger loans, resulting in significant capital erosion. We could also lower the ratings if MidCap's available liquidity to address collateral revaluation events in its secured funding facilities becomes less than adequate in our view.

Upside scenario. An upgrade is not likely in the next six to 12 months.

Ratings score snapshot

Issuer credit rating: BB-/Stable/--

Stand-alone credit profile: bb-

- Preliminary anchor: bb+
- Anchor adjustment: 0
- Business position: Moderate (-1)
- Capital and earnings: Adequate (0)
- Risk position: Moderate (-1)
- Funding and liquidity: Adequate and adequate (0)
- Comparable rating analysis: 0

Support: 0

- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

National Rural Utilities Cooperative Finance Corp.

Our ratings on National Rural Utilities Cooperative Finance Corp. (CFC) reflect its very strong business stability as a result of decades of providing financing to member electric utility cooperatives, the low credit risk of electric utility loans, and access to low-cost funding from the Federal Financing Bank, Farmer Mac, and its members. Single borrower and industry concentrations in its loan portfolio are rating weaknesses.

Outlook

The stable outlook reflects our expectations that CFC, over the next 12-24 months, will maintain a risk-adjusted capital (RAC) ratio of 7.0% or better with adequate funding and liquidity, while maintaining its role as an important source of financing for the rural electric utility industry.

Downside scenario. We could lower our ratings if the company's RAC ratio declines below 7.0% on a consistent basis, perhaps due to unexpectedly large credit losses, or if, in our view, the company's unique business position erodes or its liquidity weakens.

Upside scenario. We could raise our ratings if the company's RAC ratio rises well above 10.0% while it maintains minimal credit losses with continued access to funding from the Federal Financing Bank, Farmer Mac, and its members. The company's concentrated business model and use of short-term debt limit the probability of a higher rating.

Ratings score snapshot

Issuer credit rating: A-/Stable/A-2

Stand-alone credit profile: a-

- Preliminary anchor: bb+
- Entity-specific adjustment: (+1)
- Business position: Very Strong (+2)
- Capital and earnings: Adequate (0)
- Risk position: Adequate (0)
- Funding and liquidity: Adequate and adequate (0)
- Comparable rating analysis: Positive (+1)

Support: 0

- GRE support: 0

- Group support: 0
- Sovereign support: 0

Additional factors: 0

Oxford Finance LLC

The ratings on Oxford Finance LLC reflect its niche position within health care lending and its strong underwriting track record, offset by increasing leverage tolerances.

Outlook

The stable outlook reflects our expectation that Oxford will operate with debt-to-ATE leverage around 3.5x and that prudent underwriting will support minimal realized credit losses and sound profitability over the next 12 months. We also expect the company to ensure its funding vehicles remain compliant with its financial covenants.

Downside scenario. We could lower our rating if leverage, as measured by debt to ATE, rises above 4.0x. We could also lower the rating if portfolio credit quality deteriorates more than we expect, particularly if that pressures any of the company's secured debt covenants.

Upside scenario. An upgrade is unlikely over the next 12 months.

Ratings score snapshot

Issuer credit rating: BB-/Stable/--

Stand-alone credit profile: bb-

- Preliminary anchor: bb+
- Anchor adjustment: 0
- Business position: Moderate (-1)
- Capital and earnings: Adequate (0)
- Risk position: Moderate (-1)
- Funding and liquidity: Moderate and adequate (-1)
- Comparable rating analysis: Positive (+1)

Support: 0

- GRE support: 0
- Group support: 0
- Sovereign support: 0

Additional factors: 0

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021
- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2011

Ratings List

* * * * * * * * * * * * * * **Burford Capital Ltd.** * * * * * * * * * * * * *	
Ratings Affirmed	
Burford Capital Ltd.	
Burford Capital LLC	
Burford Capital Global Finance LLC	
Issuer Credit Rating	BB-/Stable/--

Burford Capital Ltd.	
*** * * * Hannon Armstrong Sustainable Infrastructure Capital, Inc. * * * ***	
Ratings Affirmed	
Hannon Armstrong Sustainable Infrastructure Capital, Inc.	
Issuer Credit Rating	BB+/Stable/--
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Ratings Affirmed	
Jefferies Finance LLC	
Issuer Credit Rating	BB-/Stable/--
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Ratings Affirmed	
KKR Financial Holdings LLC	
Issuer Credit Rating	BBB/Stable/--
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Ratings Affirmed	
Massachusetts Development Finance Agency	
Issuer Credit Rating	A+/Stable/--
*** * * * * * * * * * * MidCap Financial Holdings Trust * * * * * * * * * ***	
Ratings Affirmed	
MidCap Financial Issuer Trust	
MidCap Financial Holdings Trust	
Issuer Credit Rating	BB-/Stable/--
*** * * * * * National Rural Utilities Cooperative Finance Corp. * * * * * ***	
Ratings Affirmed	
National Rural Utilities Cooperative Finance Corp.	
Issuer Credit Rating	A-/Stable/A-2
*** * * * * * * * * * * * * * Oxford Finance LLC * * * * * * * * * * * * * ***	
Ratings Affirmed	
Oxford Finance LLC	
Issuer Credit Rating	BB-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.